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Santee School District

Annual Financial Report

June 30, 2008

SANTEE SCHOOL DISTRICT
OF SAN DIEGO COUNTY
SANTEE, CALIFORNIA
JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dan Bartholomew	President	December 5, 2008
Dianne El-Hajj	Vice President	December 5, 2008
Dustin Burns	Clerk	December 3, 2010
Barbara Ryan	Member	December 3, 2010
Allen Carlisle	Member	December 3, 2010

ADMINISTRATION

Lisbeth A. Johnson, Ed.D.	Superintendent
Bill Clark	Assistant Superintendent, Business Services

SANTEE SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	19
Fiduciary Funds - Statement of Net Assets	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	46
Cafeteria Fund - Budgetary Comparison Schedule	47
Special Reserve Fund for Other Than Capital Outlay Projects - Budgetary Comparison Schedule	48

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	50
Local Education Agency Organization Structure	51
Schedule of Average Daily Attendance	52
Schedule of Instructional Time	53
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	54
Schedule of Financial Trends and Analysis	55
Excess Sick Leave	56
Note to Supplementary Information	57

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	60
Note to Supplementary Information - Unaudited	61

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	65
Report on State Compliance	67

SANTEE SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	70
Financial Statement Findings	71
Federal Award Findings and Questioned Costs	72
State Award Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	74

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Santee School District
Santee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santee School District (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santee School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 13 and budgetary comparison information on pages 46 through 48 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 15, 2008



Santee School District

SCHOOLS:

Cajon Park
Carlton Hills
Carlton Oaks
Chet F. Harritt
Hill Creek
Pepper Drive
Prospect Avenue
Rio Seco
Sycamore Canyon
Alternative
Success Program

This section of Santee School District's (the "District") (2007-08) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008, with comparative information from 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including infrastructure), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Primary unit of the government is the Santee School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District continued with its strong emphasis on maximizing its financial resources by aggressively pursuing short and long-term strategies to guide the District toward stronger and sustained fiscal health.

Modernization Project

On November 7, 2006, the voters living within the Santee School District approved Proposition R authorizing the District to issue \$60 million in general obligation bonds to modernize the District's instructional facilities. The \$60 million bond is part of a larger comprehensive modernization plan totaling \$125 million.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

The Governmental Fund Statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$24,381,482 for the fiscal year ended June 30, 2008. Of this amount, \$3,364,455 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

		Governmental Activities	
		2008	2007
Assets			
Current and other assets		\$ 16,619,071	\$ 31,144,381
Capital assets		35,859,802	17,741,730
Total Assets		<u>52,478,873</u>	<u>48,886,111</u>
Liabilities			
Current liabilities		3,336,936	1,839,201
Long-term obligations		24,760,455	25,511,039
Total Liabilities		<u>28,097,391</u>	<u>27,350,240</u>
Net Assets			
Invested in capital assets, net of related debt		14,178,493	10,917,931
Restricted		6,838,534	10,309,031
Unrestricted		3,364,455	308,909
Total Net Assets		<u>\$ 24,381,482</u>	<u>\$ 21,535,871</u>

The \$3,364,455 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.

Table 2

		Governmental Activities	
		2008	2007
Revenues			
Program revenues:			
Charges for services		\$ 783,128	\$ 797,145
Operating grants and contributions		11,291,458	11,356,379
General revenues:			
Federal and State aid		27,222,298	26,894,029
Property taxes		12,211,087	10,454,149
Other general revenues		6,451,472	8,440,603
Total Revenues		<u>57,959,443</u>	<u>57,942,305</u>
Expenses			
Instruction		34,488,586	34,901,945
Instruction-related		5,186,616	4,917,735
Pupil services		5,337,561	4,688,714
Administration		3,066,178	3,450,374
Plant services		4,604,882	6,027,574
Community services		2,067,123	2,105,461
Other		362,886	42,749
Total Expenses		<u>55,113,832</u>	<u>56,134,552</u>
Change in Net Assets		<u>\$ 2,845,611</u>	<u>\$ 1,807,753</u>

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$55,113,832. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$12,211,087 because the cost was paid by those who benefited from the programs (\$783,128) or by other governments and organizations who subsidized certain programs with grants and contributions (\$11,291,458). We paid for the remaining "public benefit" portion of our governmental activities with \$33,673,770 in State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions: instruction, instruction-related services, pupil services, administration, plant services, community services and other outgo, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 34,488,586	\$ 32,715,767	\$ 27,621,759	\$ 25,638,872
Instruction-related services	5,186,616	4,958,263	3,858,326	3,432,651
Pupil services	5,337,561	4,506,539	2,461,956	2,020,296
Administration	3,066,178	2,840,607	2,548,271	2,454,680
Plant services	4,604,882	4,675,877	4,284,047	4,397,585
Community services	2,067,123	1,879,697	1,902,001	1,843,890
Other	362,886	2,652,700	362,886	2,648,986
Total	\$ 55,113,832	\$ 54,229,450	\$ 43,039,246	\$ 42,436,960

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$13,092,257, which is a decrease of \$16,022,000 from last year (Table 4).

Table 4

	Balances and Activity			June 30, 2008
	July 1, 2007	Revenues	Expenditures	
General	\$ 8,440,314	\$ 52,783,683	\$ 54,197,027	\$ 7,026,970
Cafeteria	519,824	1,572,093	1,657,962	433,955
Special Reserve Fund for Other Than Capital Outlay Projects	2,314,412	567,950	120,000	2,762,362
Building	17,183,457	644,385	17,329,494	498,348
Capital Facilities	62,695	1,686,078	488,981	1,259,792
Non-Major	593,555	1,350,426	833,151	1,110,830
Total	\$ 29,114,257	\$ 58,604,615	\$ 74,626,615	\$ 13,092,257

The primary reasons for these increases/decreases are:

- A. Our general fund is our principal operating fund. The fund balance in the General Fund decreased \$1,413,344 to \$7,026,970. This decrease is largely due to the planned expenditures of the Qualified Zone Academy Bond along with planned expenditures regarding a textbook adoption.
- B. The Cafeteria Fund decreased due to capital improvement projects including kitchen modernization and a truck.
- C. The Special Reserve Fund for Other Than Capital Outlay Projects increased due to meeting the District goal of raising its ending reserve back up to historic values of six percent.
- D. The Building Fund decreased due to the district wide modernization projects.
- E. The Capital Facilities Fund increased due to the renegotiation of developer fees and redevelopment monies.
- F. The Non-Major Funds increased primarily due to having no expenditures during 2007-08 for deferred maintenance in anticipation of future expenses.

General Fund Budgetary Highlights

The Santee School District's 2007-08 revenue and expenditure activities reported in the District's General Fund operating accounts for the period ending June 30, 2008 are consistent with the operating budget approved by the Board of Education. The District's accounts are managed in accordance with State law and in addition to an annual independent audit are submitted to the San Diego County Office of Education for their review and comment.

The June 30, 2008 ending operating activities demonstrate continued positive operating results supported by a projected unrestricted General Fund increase of approximately \$51,152. The general funding ending reserve increases to \$1,993,044 based largely on higher revenue over budgeted amounts. Current and projected cash balances remain consistent with the District's budget plan.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

Multi-year budget projections forecast positive operating contributions throughout the three year projection period. Conservative budget assumptions established by the San Diego County Office of Education, combined with strategically planned expenditure reductions, serve as the basis for the District's multi-year budget planning.

The projections provide a basis for measuring the strength of the District's current and projected operating activities. District expenditures remain within the parameters established by the 2007-08 adopted budget. Commercial warrant expenditures continue to trend well overall when compared to prior years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$35,859,802 in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$18,118,072 or 102.1 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2008	2007
Land	\$ 8,547,242	\$ 8,547,242
Construction in progress	19,420,026	1,395,612
Buildings and improvements	5,726,989	6,099,727
Furniture and equipment	2,165,545	1,699,149
Total	\$ 35,859,802	\$ 17,741,730

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Long-Term Obligations

Long-term obligations include general obligation bonds, accumulated vacation, capital leases, postemployment benefits (not including health benefits) and the Qualified Zone Academy Bond (QZAB). We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

Table 6

	Governmental Activities	
	2008	2007
General obligation bonds (financed with property taxes)	\$ 18,000,000	\$ 18,000,000
Premium on general obligation bond	692,921	723,057
Accumulated vacation - net	217,586	175,153
Capital leases	-	123,361
PARS Retirement	390,278	912,857
CalSTRS Golden Handshake	459,670	576,611
QZAB	5,000,000	5,000,000
Total	\$ 24,760,455	\$ 25,511,039

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-2008 ARE NOTED BELOW:

The Santee School District Board of Education, administration, staff, and community stand together with the united purpose of ensuring the current and future success of the Santee School District. There exists a great deal of pride in our community and its people and involvement by all stakeholders in its success. This is possibly the most important factor in predicting the future success of the Santee School District and its resilience in overcoming possibly some of the most challenging financial obstacles faced by any district in San Diego County in recent years.

GASB 45 PLANNING

In 2004, the GASB issued Statement no.45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requiring public agencies to report their costs and obligation pertaining to health and other benefits of current and future retired employees much like they now report pension plan obligations. These other postemployment benefits (OPEB) - including such benefits as medical, dental, vision, hearing, life insurance, long-term care and long-term disability - must be recognized as a current cost during the working years of an employee. Thus, each District and County Office of Education must identify and disclose OPEBs as an expense and, to the extent not pre-funded a liability on its financial statements. As a result, the annual OPEB costs for most employers will be based on actuarially determined amounts rather than in the "pay-as-you-go" method. The District will implement GASB no.45 for the year ending June 30, 2009.

SANTEE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Santee School District, 9625 Cuyamaca Street, Santee, California, 92071, or e-mail at bclark@santee.k12.ca.us.

SANTEE SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2008

	Governmental Activities
ASSETS	
Deposits and investments	\$ 11,007,604
Receivables	4,935,335
Prepaid expenditures	220,154
Stores inventories	126,394
Cost of issuance	329,584
Capital Assets	
Land and construction in progress	27,967,268
Other capital assets	26,352,220
Less: accumulated depreciation	(18,459,686)
Total Capital Assets	35,859,802
TOTAL ASSETS	52,478,873
LIABILITIES	
Accounts payable	2,735,065
Interest payable	139,706
Deferred revenue	462,165
Long-Term Obligations	
Current portion of long-term obligations	837,645
Noncurrent portion of long-term obligations	23,922,810
Total Long-Term Obligations	24,760,455
TOTAL LIABILITIES	28,097,391
NET ASSETS	
Invested in capital assets, net of related debt	14,178,493
Restricted for:	
Debt service	948,454
Capital projects	507,972
Educational programs	4,785,777
Other restrictions	596,331
Unrestricted	3,364,455
TOTAL NET ASSETS	\$ 24,381,482

The accompanying notes are an integral part of these financial statements.

SANTEE SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2008

	General Fund	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Building Fund
ASSETS				
Deposits and investments	\$ 4,046,547	\$ 782,136	\$ 1,647,118	\$ 2,011,612
Receivables	4,051,137	153,933	13,664	209,329
Due from other funds	516,676	186,950	1,346,580	121,994
Prepaid expenditures	220,154	-	-	-
Stores inventories	50,278	76,116	-	-
Total Assets	\$ 8,884,792	\$ 1,199,135	\$ 3,007,362	\$ 2,342,935
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 742,329	\$ 5,711	\$ -	\$ 1,844,587
Due to other funds	656,410	759,469	245,000	-
Deferred revenue	459,083	-	-	-
Total Liabilities	1,857,822	765,180	245,000	1,844,587
Fund Balances:				
Reserved for:				
Revolving cash	15,000	-	-	-
Prepaid expenditures	220,154	-	-	-
Stores inventories	50,278	76,116	-	-
Restricted programs	4,785,777	-	-	-
Unreserved:				
Designated	1,588,915	-	-	-
Undesignated, reported in:				
General Fund	366,846	-	-	-
Special revenue funds	-	357,839	2,762,362	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	498,348
Total Fund Balance	7,026,970	433,955	2,762,362	498,348
Total Liabilities and Fund Balances	\$ 8,884,792	\$ 1,199,135	\$ 3,007,362	\$ 2,342,935

The accompanying notes are an integral part of these financial statements.

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,283,235	\$ 1,236,956	\$ 11,007,604
502,151	5,121	4,935,335
258,959	28,827	2,459,986
-	-	220,154
-	-	126,394
<u>\$ 2,044,345</u>	<u>\$ 1,270,904</u>	<u>\$ 18,749,473</u>

\$ 25,358	\$ 117,080	\$ 2,735,065
759,195	39,912	2,459,986
-	3,082	462,165
<u>784,553</u>	<u>160,074</u>	<u>5,657,216</u>

-	-	15,000
-	-	220,154
-	-	126,394
-	-	4,785,777
-	-	1,588,915
-	-	366,846
-	162,376	3,282,577
-	948,454	948,454
1,259,792	-	1,758,140
<u>1,259,792</u>	<u>1,110,830</u>	<u>13,092,257</u>
<u>\$ 2,044,345</u>	<u>\$ 1,270,904</u>	<u>\$ 18,749,473</u>

SANTEE SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Building Fund
REVENUES				
Revenue limit sources	\$ 34,199,457	\$ -	\$ -	\$ -
Federal sources	2,829,724	730,370	-	-
Other State sources	8,529,116	50,893	-	-
Other local sources	7,105,386	790,830	67,950	644,385
Total Revenues	52,663,683	1,572,093	67,950	644,385
EXPENDITURES				
Current				
Instruction	34,082,497	-	-	-
Instruction-related activities:				
Supervision of instruction	1,222,863	-	-	-
Instructional library, media, and technology	984,833	-	-	-
School site administration	2,801,259	-	-	-
Pupil services:				
Home-to-school transportation	1,293,630	-	-	-
Food services	564	1,546,962	-	-
All other pupil services	2,412,168	-	-	-
Administration:				
Data processing	100,124	-	-	-
All other administration	3,535,358	65,000	-	-
Plant services	4,535,608	46,000	-	15,761
Facility acquisition and construction	635,828	-	-	17,313,733
Community services	2,067,123	-	-	-
Debt service				
Interest and other	-	-	-	-
Total Expenditures	53,671,855	1,657,962	-	17,329,494
Excess (Deficiency) of Revenues Over Expenditures	(1,008,172)	(85,869)	67,950	(16,685,109)
Other Financing Sources (Uses)				
Transfers in	120,000	-	500,000	-
Transfers out	(525,172)	-	(120,000)	-
Net Financing Sources (Uses)	(405,172)	-	380,000	-
NET CHANGE IN FUND BALANCES	(1,413,344)	(85,869)	447,950	(16,685,109)
Fund Balance - Beginning	8,440,314	519,824	2,314,412	17,183,457
Fund Balance - Ending	\$ 7,026,970	\$ 433,955	\$ 2,762,362	\$ 498,348

The accompanying notes are an integral part of these financial statements.

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 34,199,457
-	-	3,560,094
-	498,549	9,078,558
1,686,078	826,705	11,121,334
1,686,078	1,325,254	57,959,443
-	190,904	34,273,401
-	22,702	1,245,565
-	-	984,833
-	-	2,801,259
-	-	1,293,630
-	-	1,547,526
-	-	2,412,168
-	-	100,124
120,690	7,379	3,728,427
69,495	350,309	5,017,173
168,676	-	18,118,237
-	-	2,067,123
130,120	261,857	391,977
488,981	833,151	73,981,443
1,197,097	492,103	(16,022,000)
-	25,172	645,172
-	-	(645,172)
-	25,172	-
1,197,097	517,275	(16,022,000)
62,695	593,555	29,114,257
\$ 1,259,792	\$ 1,110,830	\$ 13,092,257

SANTEE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds		\$(16,022,000)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period:		
Capital outlay	\$18,889,351	
Depreciation expense	<u>(771,279)</u>	
Net Expense Adjustment		18,118,072
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$42,433. The decrease in special termination benefits was \$639,520.		597,087
Governmental funds report the effect of premiums and issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:		
Premium on issuance	30,136	
Cost of issuance	<u>(13,733)</u>	
Combined adjustment		16,403
Payment of principal on capital leases is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.		123,361
Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		12,688
Change in Net Assets of Governmental Activities		<u>\$ 2,845,611</u>

The accompanying notes are an integral part of these financial statements.

SANTEE SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Agency Funds
ASSETS	
Deposits and investments	<u>\$ 53,975</u>
LIABILITIES	
Due to student groups	<u>\$ 53,975</u>

The accompanying notes are an integral part of these financial statements.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santee School District was organized in 1893, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District operates one K - 6 elementary school, eight K-8 elementary schools, and an alternative school program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Santee School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entity

Joint Powers Agency The District is associated with one joint powers agency. This organization does not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. This organization is:

- San Diego County Schools Risk Management (SDCSRM)

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Charter School Fund This fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California District's and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for District's as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2008, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental-type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$6,838,534 of restricted net assets.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as RSI by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments-financial arrangements used by governments to manage specific risks or make investments-in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 11,007,604
Fiduciary funds	53,975
Total Deposits and Investments	<u>\$ 11,061,579</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 344,520
Cash in revolving	15,000
Investments	10,702,059
Total Deposits and Investments	<u>\$ 11,061,579</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Negotiable Certificates of Deposit	5 years	40%	None
County Pooled Investment Funds	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
County Pool	\$ 7,238,110	427 Days
Negotiable Certificate of Deposit	2,207,118	9/15/2009
Negotiable Certificate of Deposit	1,172,765	3/15/2009
Negotiable Certificate of Deposit	84,066	12/13/2008
Total	<u>\$ 10,702,059</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool and Negotiable Certificate of Deposits is not required to be rated, nor has it been rated as of June 30, 2008.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issue that represent five percent or more of the total investments are as follows:

Investment Type	Issuer	Reported Amount
Negotiable Certificates of Deposit	Mission Federal Credit Union	<u>\$ 3,463,949</u>

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments of \$3,463,949 held by Mission Federal Credit Union, the District has a custodial credit risk exposure of \$3,363,949 as the related securities are uninsured, unregistered and held by the financial institution or brokerage firm which is also the counterparties for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2008, the District maintained cash deposits in the amount of \$359,520 with one financial institution. The financial institutions' deposits up to \$100,000 are insured by the National Credit Union Administration (NCUA). Of the cash deposits in financial institutions, \$100,000 was covered by the NCUA insurance programs. The remaining \$259,520 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution trust department or agent, but not in the District's name.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Building Fund
Federal Government				
Categorical aid	\$ 636,945	\$ -	\$ -	\$ -
State Government				
Apportionment	2,076,369	-	-	-
Categorical aid	285,811	7,066	-	-
Lottery	436,870	-	-	-
Local Government				
Interest	34,597	3,830	13,664	87,581
Other Local Sources	580,545	143,037	-	121,748
Total	<u>\$ 4,051,137</u>	<u>\$ 153,933</u>	<u>\$ 13,664</u>	<u>\$ 209,329</u>

	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ -	\$ -	\$ 636,945
State Government			
Apportionment	-	-	2,076,369
Categorical aid	-	-	292,877
Lottery	-	-	436,870
Local Government			
Interest	4,747	5,121	149,540
Other Local Sources	497,404	-	1,342,734
Total	<u>\$ 502,151</u>	<u>\$ 5,121</u>	<u>\$ 4,935,335</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 8,547,242	\$ -	\$ -	\$ 8,547,242
Construction in Progress	1,395,612	18,024,414	-	19,420,026
Total Capital Assets				
Not Being Depreciated	9,942,854	18,024,414	-	27,967,268
Capital Assets Being Depreciated				
Land improvements	2,963,600	229,109	-	3,192,709
Buildings and improvements	17,312,763	-	-	17,312,763
Furniture and equipment	5,210,920	635,828	-	5,846,748
Total Capital Assets				
Being Depreciated	25,487,283	864,937	-	26,352,220
Total Capital Assets	35,430,137	18,889,351	-	54,319,488
Less Accumulated Depreciation				
Land improvements	2,131,355	113,334	-	2,244,689
Buildings and improvements	12,045,281	488,513	-	12,533,794
Furniture and equipment	3,511,771	169,432	-	3,681,203
Total Accumulated Depreciation	17,688,407	771,279	-	18,459,686
Governmental Activities Capital Assets, Net	\$ 17,741,730	\$ 18,118,072	\$ -	\$ 35,859,802

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 215,185
Instructional library, media, and technology	124,824
School site administration	30,135
Home-to-school transportation	17,839
Food services	54,131
All other pupil services	12,267
All other administration	48,705
Data processing	24,382
Plant services	243,811
Total Depreciation Expenses Governmental Activities	\$ 771,279

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, between major and non-major governmental funds are as follows:

Due To	Due From					Total
	General Fund	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 283,968	\$ -	\$ 193,122	\$ 39,586	\$ 516,676
Cafeteria Fund	186,624	-	-	-	326	186,950
Special Reserve Fund for Other Than Capital Outlay Projects	427,000	475,501	-	444,079	-	1,346,580
Building Fund	-	-	-	121,994	-	121,994
Capital Facilities Fund	13,959	-	245,000	-	-	258,959
Non-Major Governmental Funds	28,827	-	-	-	-	28,827
Total	<u>\$ 656,410</u>	<u>\$ 759,469</u>	<u>\$ 245,000</u>	<u>\$ 759,195</u>	<u>\$ 39,912</u>	<u>\$2,459,986</u>

Interfund receivable and payable balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer To	General Fund	Transfer From	Total
		Special Reserve Fund for Other Than Capital Outlay Projects	
General Fund	\$ -	\$ 120,000	\$ 120,000
Special Reserve Fund for Other Than Capital Outlay Projects	500,000	-	500,000
Non-Major Governmental Funds	25,172	-	25,172
Total	<u>\$ 525,172</u>	<u>\$ 120,000</u>	<u>\$ 645,172</u>

The General Fund transferred to the Special Reserve Fund for Other Than Capital Outlay Projects for GASB 45 reserve.

\$ 500,000
25,172

The General Fund transferred to the Deferred Maintenance Fund for the District match.

The Special Reserve Fund for Other Than Capital Outlay Projects transferred to the General Fund for a one time interest transfer.

Total

120,000
\$ 645,172

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 627,051	\$ 5,711	\$ -	\$ -	\$ 22,306	\$ 655,068
State apportionment	-	-	-	-	94,774	94,774
Salaries and benefits	115,278	-	-	-	-	115,278
Construction	-	-	1,844,587	25,358	-	1,869,945
Total	<u>\$ 742,329</u>	<u>\$ 5,711</u>	<u>\$ 1,844,587</u>	<u>\$ 25,358</u>	<u>\$ 117,080</u>	<u>\$ 2,735,065</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 459,083	\$ -	\$ 459,083
State categorical aid	-	3,082	3,082
Total	<u>\$ 459,083</u>	<u>\$ 3,082</u>	<u>\$ 462,165</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	\$ 18,000,000	\$ -	\$ -	\$ 18,000,000	\$ 435,000
Premium on bonds	723,057	-	30,136	692,921	30,127
Accumulated vacation - net	175,153	42,433	-	217,586	-
Capital leases	123,361	-	123,361	-	-
PARS Retirement	912,857	-	522,579	390,278	260,873
CalSTRS Golden Handshake	576,611	-	116,941	459,670	111,645
Qualified Zone Academy Bond	5,000,000	-	-	5,000,000	-
	<u>\$ 25,511,039</u>	<u>\$ 42,433</u>	<u>\$ 793,017</u>	<u>\$ 24,760,455</u>	<u>\$ 837,645</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Bonded Debt

On April 17, 2007, the District issued \$18,000,000 of General Obligation Bonds 2006 Election, Series A. The bonds were issued to acquire, expand, modernize and construct K-8 schools within the District. Interest rates range from 3.50 percent to 5.00 percent. As of June 30, 2008, the principal balance outstanding was \$18,000,000.

The bonds mature through 2032 as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 435,000	\$ 952,533	\$ 1,387,533
2010	-	838,238	838,238
2011	-	838,238	838,238
2012	-	838,238	838,238
2013	30,000	837,638	867,638
2014-2018	980,000	4,111,787	5,091,787
2019-2023	2,890,000	3,728,462	6,618,462
2024-2028	5,820,000	2,758,680	8,578,680
2029-2032	7,845,000	837,375	8,682,375
Total	<u>\$ 18,000,000</u>	<u>\$ 15,741,189</u>	<u>\$ 33,741,189</u>

General Obligation Bond Premium and Cost of Issuance

The General Obligation Bonds 2006 Election, Series A were issued at a Premium of \$723,057 and had a related Cost of Issuance of \$343,317. The Premium and Cost of Issuance will be amortized in the government-wide financial statements over the life of the debt issues.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$217,586.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$784,118. The District's liability on lease agreements with options to purchase is summarized below:

	Phone System
Balance, July 1, 2007	\$ 130,121
Additions	-
Payments	130,121
Balance, July 1, 2008	<u>\$ -</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Early Retirement Plans (PARS)

The District offered early retirement plans to its classified employees. The annuities offered to the employees are paid over a five-year period. The annuities below, were purchased for employees who retired during 2002-2003, 2003-2004, and 2004-2005.

Future annuity payments are as follows:

Year Ending June 30	Total Payments
2009	\$ 260,873
2010	129,405
Total	<u>\$ 390,278</u>

CalSTRS Golden Handshake

The District has adopted an early retirement program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the California State Teachers' Retirement System (CalSTRS) and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Future payments are as follows:

Year Ending June 30	Total Payments
2009	\$ 111,645
2010	113,159
2011	101,051
2012	95,751
2013	38,064
Total	<u>\$ 459,670</u>

Qualified Zone Academy Bond

In November 2005, the District issued \$5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 1, 2020.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Building Fund	Capital Facilities Fund
Reserved					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ -
Stores inventories	50,278	76,116	-	-	-
Prepaid expenditures	220,154	-	-	-	-
Restricted programs	4,785,777	-	-	-	-
Total Reserved	<u>5,071,209</u>	<u>76,116</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved					
Designated					
Economic uncertainties	1,588,915	-	-	-	-
Undesignated	366,846	357,839	2,762,362	498,348	1,259,792
Total Unreserved	<u>1,955,761</u>	<u>357,839</u>	<u>2,762,362</u>	<u>498,348</u>	<u>1,259,792</u>
Total	<u>\$ 7,026,970</u>	<u>\$ 433,955</u>	<u>\$ 2,762,362</u>	<u>\$ 498,348</u>	<u>\$ 1,259,792</u>

	Non-Major Governmental Funds	Total
Reserved		
Revolving cash	\$ -	\$ 15,000
Stores inventories	-	126,394
Prepaid expenditures	-	220,154
Restricted programs	-	4,785,777
Total Reserved	<u>-</u>	<u>5,147,325</u>
Unreserved		
Designated		
Economic uncertainties	-	1,588,915
Undesignated	1,110,830	6,356,017
Total Unreserved	<u>1,110,830</u>	<u>7,944,932</u>
Total	<u>\$ 1,110,830</u>	<u>\$ 13,092,257</u>

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 10 – EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2008, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	<u>\$ 52,145,584</u>	<u>\$ 52,438,656 *</u>	<u>\$ 293,072</u>

* Does not include on-behalf payments of \$1,233,199.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Currently, 114 employees meet those eligibility requirements. The District contributes between 50 and 100 percent of the amount of premiums incurred by retirees, depending upon length of service and other factors. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis. During the year, expenditures of \$583,527 were recognized for retirees' health care benefits.

NOTE 12 - RISK MANAGEMENT

Workers' Compensation

For fiscal year 2008, the District participated in the San Diego County Schools Risk Management (SDCSRM), an insurance purchasing pool. The intent of SDCSRM is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SDCSRM. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in SDCSRM. Each participant pays its workers' compensation premium based on its individual rate.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the California State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$2,241,951, \$2,168,030, and \$2,069,812, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the California Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$733,948, \$678,546, and \$633,579, respectively, and equal 100 percent of the required contributions for each year.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,233,199 (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. However, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use social security as its alternative plan.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

Litigation

The District is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AGENCY

The District is a member of the San Diego County Schools Risk Management (SDCSRM) joint powers agency (JPA). The District pays an annual premium to the entity for its workers' compensation coverage. The relationship between the District and the JPA is such that it is not component units of the District for financial reporting purposes.

This entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are generally available from the JPA. The District has appointed one board member to the governing board of SDCSRM. During the year ended June 30, 2008, the District paid \$285,848 to SDCSRM for workers' compensation premiums.

SANTEE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$5,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2008. The notes mature on June 30, 2009, and yield 1.63 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2009, until 100 percent of principal and interest due is on account in May 2009.

The District issued \$12,385,077 of General Obligation Bonds 2006 Election, Series B, \$2,869,039 of General Obligation Bonds 2006 Election, Series C, and \$7,840,155 of General Obligation Bonds 2006 Election, Series D dated August 20, 2008. The bonds were issued to finance the addition and modernization of school facilities of the District. Interest rates range from four percent to five percent.

The District issued \$23,699,849 of Certificates of Participation dated September 24, 2008. The certificates were issued to finance the acquisition, construction, installation, modernization and equipping of improvements to various District facilities. Interest rates range from 3.25 percent to 4.88 percent.

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REQUIRED SUPPLEMENTARY INFORMATION

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SANTEE SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources	\$ 34,168,464	\$ 34,170,523	\$ 34,199,457	\$ 28,934
Federal sources	2,643,549	3,103,856	2,505,803	(598,053)
Other State sources	6,648,601	7,554,666	8,529,116	974,450
Other local sources	6,463,103	7,348,935	7,429,307	80,372
Total Revenues ¹	49,923,717	52,177,980	52,663,683	485,703
EXPENDITURES				
Current				
Instruction	31,385,753	33,391,971	34,082,497	(690,526)
Instruction-related activities:				
Supervision of instruction	1,317,829	1,338,664	1,222,863	115,801
Instructional library, media, and technology	1,061,314	1,078,094	984,833	93,261
School site administration	3,018,802	3,066,530	2,801,259	265,271
Pupil services:				
Home-to-school transportation	1,050,822	1,379,120	1,293,630	85,490
Food services	458	601	564	37
All other pupil services	1,959,417	2,571,577	2,412,168	159,409
Administration:				
Data processing	77,185	75,062	100,124	(25,062)
All other administration	2,725,402	2,650,426	3,535,358	(884,932)
Plant services	3,628,487	3,899,171	4,535,608	(636,437)
Facility acquisition and construction	508,663	546,609	635,828	(89,219)
Community Services	2,034,900	2,147,758	2,067,123	80,635
Total Expenditures ¹	48,769,032	52,145,584	53,671,855	(1,526,271)
Excess (Deficiency) of Revenues Over Expenditures	1,154,685	32,396	(1,008,172)	(1,040,568)
Other Financing Sources (Uses)				
Transfers in	-	120,000	120,000	-
Transfers out	52,000	-	(525,172)	(525,172)
Net Financing Sources (Uses)	52,000	120,000	(405,172)	(525,172)
NET CHANGE IN FUND BALANCES	1,206,685	152,396	(1,413,344)	(1,565,740)
Fund Balance - Beginning	8,440,314	8,440,314	8,440,314	-
Fund Balance - Ending	\$ 9,646,999	\$ 8,592,710	\$ 7,026,970	\$ (1,565,740)

¹ On behalf payments of \$1,233,199 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

SANTEE SCHOOL DISTRICT

CAFETERIA FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variances -
	(GAAP Basis)		Actual	Positive
	Original	Final	(GAAP Basis)	Final
				to Actual
REVENUES				
Federal sources	\$ 585,000	\$ 585,000	\$ 730,370	\$ 145,370
Other State sources	35,000	35,000	50,893	15,893
Other local sources	815,000	815,000	790,830	(24,170)
Total Revenues	1,435,000	1,435,000	1,572,093	137,093
EXPENDITURES				
Current				
Pupil services:				
Food services	1,340,071	1,342,571	1,546,962	(204,391)
General administration:				
All other general administration	65,000	65,000	65,000	-
Plant services	46,000	46,000	46,000	-
Total Expenditures	1,451,071	1,453,571	1,657,962	(204,391)
Excess of Revenues Over Expenditures	(16,071)	(18,571)	(85,869)	(67,298)
Fund Balance - Beginning	519,824	519,824	519,824	-
Fund Balance - Ending	\$ 503,753	\$ 501,253	\$ 433,955	\$ (67,298)

SANTEE SCHOOL DISTRICT

SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY PROJECTS BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Other local sources	\$ 40,000	\$ 40,000	\$ 67,950	\$ 27,950
Total Revenues	40,000	40,000	67,950	27,950
EXPENDITURES				
Total Expenditures	-	-	-	-
Excess of Revenues Over Expenditures	40,000	40,000	67,950	27,950
Other Financing Sources				
Transfers in	-	-	500,000	500,000
Transfers out	-	(141,580)	(120,000)	21,580
Net Financing Sources	-	(141,580)	380,000	521,580
NET CHANGE IN FUND BALANCES	40,000	(101,580)	447,950	549,530
Fund Balance - Beginning	2,314,412	2,314,412	2,314,412	-
Fund Balance - Ending	\$ 2,354,412	\$ 2,212,832	\$ 2,762,362	\$ 549,530

SANTEE SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2008

Grade Level	1982-83	1986-87	2007-08	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,000	180	N/A	Complied
Grades 1 - 3	47,250	50,400				
Grade 1			51,480	180	N/A	Complied
Grade 2			51,480	180	N/A	Complied
Grade 3			51,480	180	N/A	Complied
Grades 4 - 6	55,125	54,000				
Grade 4			56,000	180	N/A	Complied
Grade 5			56,000	180	N/A	Complied
Grade 6			56,000	180	N/A	Complied
Grades 7 - 8	57,990	54,000				
Grade 7			58,397	180	N/A	Complied
Grade 8			58,397	180	N/A	Complied

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Cafeteria Fund	Building Fund
FUND BALANCE			
Balance, June 30, 2008, Unaudited Actuals	\$ 6,778,820	\$ 451,187	\$ 1,077,320
Increase in:			
Cash in bank	248,150	-	-
Accounts payable	-	-	(578,972)
Decrease in:			
Cash in bank	-	(17,232)	-
Balance, June 30, 2008, Audited Financial Statement	<u>\$ 7,026,970</u>	<u>\$ 433,955</u>	<u>\$ 498,348</u>

See accompanying note to supplementary information.

SANTEE SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget) 2009 ¹	2008	2007	2006
GENERAL FUND				
Revenues	\$ 48,818,123	\$ 52,663,683	\$ 54,696,221	\$ 50,810,959
Other financing sources and transfers in	-	120,000	334,030	5,000,000
Total Revenues and Other Sources	48,818,123	52,783,683	55,030,251	55,810,959
Expenditures	49,308,849	53,671,855	52,558,478	49,594,469
Other uses and transfers out	379,047	525,172	1,183,622	2,542,150
Total Expenditures and Other Uses	49,687,896	54,197,027	53,742,100	52,136,619
INCREASE (DECREASE) IN FUND BALANCE	\$ (869,773)	\$ (1,413,344)	\$ 1,288,151	\$ 3,674,340
ENDING FUND BALANCE	\$ 6,157,197	\$ 7,026,970	\$ 8,440,314	\$ 7,152,163
AVAILABLE RESERVES ²	\$ 3,848,350	\$ 4,718,123	\$ 3,944,625	\$ 2,351,375
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	7.7%	8.91%	7.50%	4.61%
LONG-TERM OBLIGATIONS	N/A	\$24,760,455	\$ 25,511,039	\$ 7,700,980
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,050	6,086	6,113	6,303

The General Fund balance has decreased by \$125,193 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$869,773 (12.38 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have increased by \$17,059,475 over the past two years.

Average daily attendance has decreased by 217 over the past two years. Additional decline of 36 ADA is anticipated during fiscal year 2008-2009.

¹ Budget 2009 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

³ On behalf payments of \$1,233,199, \$1,181,948 and \$1,114,669 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2008, 2007, and 2006, respectively.

SANTEE SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2008

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Santee School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members.

1. Certificated employees with excess of ten (10) years of continuous employment
2. Certificated management with excess of ten (10) years of continuous employment

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the CalSTRS.

SUPPLEMENTARY INFORMATION - UNAUDITED

SANTEE SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - UNAUDITED JUNE 30, 2008

	Charter School Fund	Child Development Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 98,348	\$ 9,817	\$ 180,337
Receivables	849	923	3,349
Due from other funds	-	28,827	-
Total Assets	<u>\$ 99,197</u>	<u>\$ 39,567</u>	<u>\$ 183,686</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 94,774	\$ 996	\$ 21,310
Due to other funds	4,423	35,489	-
Deferred revenue	-	3,082	-
Total Liabilities	<u>99,197</u>	<u>39,567</u>	<u>21,310</u>
Fund Balances:			
Unreserved:			
Undesignated, reported in:			
Special revenue funds	-	-	162,376
Debt service funds	-	-	-
Total Fund Balance	<u>-</u>	<u>-</u>	<u>162,376</u>
Total Liabilities and Fund Balances	<u>\$ 99,197</u>	<u>\$ 39,567</u>	<u>\$ 183,686</u>

See accompanying note to supplementary information - unaudited.

Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 948,454	\$ 1,236,956
-	5,121
-	28,827
<u>\$ 948,454</u>	<u>\$ 1,270,904</u>
\$ -	\$ 117,080
-	39,912
-	3,082
<u>-</u>	<u>160,074</u>
-	162,376
948,454	948,454
<u>948,454</u>	<u>1,110,830</u>
<u>\$ 948,454</u>	<u>\$ 1,270,904</u>

SANTEE SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2008

	Charter School Fund	Child Development Fund	Deferred Maintenance Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
REVENUES					
Other State sources	\$ -	\$ 218,550	\$ 259,635	\$ 20,364	\$ 498,549
Other local sources	-	2,435	14,063	810,207	826,705
Total Revenues	-	220,985	273,698	830,571	1,325,254
EXPENDITURES					
Current					
Instruction	-	190,904	-	-	190,904
Instruction-related activities:					
Supervision of instruction	-	22,702	-	-	22,702
Administration:					
All other administration	-	7,379	-	-	7,379
Plant services	-	-	350,309	-	350,309
Debt service					
Interest and other	-	-	-	261,857	261,857
Total Expenditures	-	220,985	350,309	261,857	833,151
Excess (Deficiency) of					
Revenues Over Expenditures	-	-	(76,611)	568,714	492,103
Other Financing Sources (Uses):					
Transfers in	-	-	25,172	-	25,172
Net Financing					
Sources (Uses)	-	-	25,172	-	25,172
NET CHANGE IN FUND BALANCES	-	-	(51,439)	568,714	517,275
Fund Balance - Beginning	-	-	213,815	379,740	593,555
Fund Balance - Ending	\$ -	\$ -	\$ 162,376	\$ 948,454	\$ 1,110,830

See accompanying note to supplementary information - unaudited.

SANTEE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

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INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Santee School District
Santee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santee School District as of and for the year ended June 30, 2008, which collectively comprise Santee School District's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santee School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santee School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santee School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santee School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 15, 2008



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Santee School District
Santee, California

Compliance

We have audited the compliance of Santee School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Santee School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Santee School District's management. Our responsibility is to express an opinion on Santee School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Santee School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santee School District's compliance with those requirements.

In our opinion, Santee School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Santee School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Santee School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Santee School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 15, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Santee School District
Santee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santee School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Santee School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Santee School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes

	Procedures in Audit Guide	Procedures Performed
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Not Applicable
Excess sick leave	3	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Santee School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Santee School District had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in the report. Our audit does not provide a legal determination on Santee School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vayrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 15, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SANTEE SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2008

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

SANTEE SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

SANTEE SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

SANTEE SCHOOL DISTRICT

STATE AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

Five Digit Code
70000

AB 3627 Finding Type
Instructional Materials

2008-1 70000

Criteria or Specific Requirements

The District must spend monies for the purchase of instructional materials adopted by the State Board of Education pursuant to the provisions of *Education Code* Section 60200 for kindergarten and grades one through eight.

Condition

The District has charged indirect costs to resource 7156.

Questioned Costs

\$28,183 was charged to resource 7156 as indirect charges.

Context

The condition identified was determined based on testing of expenditures out of resource 7156.

Effect

It appears that the District is out of compliance with expenditures charged to the Instructional Materials Realignment Program in the amount of the questioned costs of \$28,183.

Cause

Per inquiry with District personnel, it appears that indirect costs were improperly booked to the program.

Recommendation

The District should transfer the questioned costs in the amount of \$28,183 to an unrestricted resource.

District Response

The District will transfer \$28,183 as recommended, during 2008-09.

SANTEE SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

There were no audit findings reported in the prior year's schedule of financial statement findings.

